

The Oracle of Omaha Wants Out!

(Part 1)

Like many other investment professionals, we have religiously studied the words and actions of Warren Buffett, arguably one of the most prolific investors of the past 50+ years. Every year in early May, Mr. Buffett hosts Berkshire Hathaway's annual meeting at a gala event that has earned the moniker of "Woodstock of Capitalists." At the meeting, Buffett generously shares many pearls of investment wisdom with investors for nearly a full day. Due to the pandemic this year, there was no pilgrimage to Omaha. But Buffett did hold a virtual annual meeting where some groundbreaking news broke.

Instead of his rallying up the troops with his "Buy and Hold Forever" cheer, Mr. Buffett made two concerning revelations. First, he announced that he completely liquidated Berkshire's large holdings of airline stocks. Second, despite the sharp sell-off in the stock market this year, Mr. Buffet said he could not find any worthy acquisition candidates to add to Berkshire Hathaway's portfolio of businesses. Meanwhile, Berkshire Hathaway's pile of cash has continued to grow to an eye-popping \$137 billion.

Has Mr. Buffett become a turncoat? Could one assume that Buffett has finally become "bearish" on stocks after many years and decades of being a "perma-bull?" And what does this mean for his flock of faithful stock investment pilgrims?

Our take is that the Covid-19 pandemic indeed has changed the investment world as we know it. We have all come to realize that the world has changed as a result of the pandemic. Moreover, many investors are wondering whether certain industries have been permanently impaired. In Buffett's estimation, airline companies fall squarely into the category of permanently impaired industries.

While we do not believe that the airline industry will disappear, the case for investing in airline stocks has changed dramatically in a matter of just a few months. In January, most US airline companies were confidently predicting record earnings this year. Now it appears that this year will financially be the worst year for airline companies in the history of aviation. Whether airlines can survive as private enterprises will depend on the speed of a recovery. And no one can answer that question with any degree of confidence right now. So, we can at least understand Buffett's rationale for jettisoning airline stocks from his portfolio.

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